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LIMITED OFFICIAL USE SECTION 1 OF 2 OECD PARIS 1836

PASS TREAS FOR KORP

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SUBJECT: MEETING OF COMMITTEE ON FISCAL AFFAIRS, JANUARY 1974

REF: (A) CFA/A(73)2 AGENDA (G) DAF/CFA/73.5

(B) CFA(73)15 (H) CFA(73)17

(C) FA(73)16 (I) C(73)216

(D) CFA(73)13 (J) DAF/CFA/73.6

(E) CFA(73)14

(F) CFA(73)18

1. SUMMARY. AT MEETING JAN 15-17, 1974 CFA AGREED TO RECOMMEND DERESTRICTION OF CERTAIN REVISED ARTICLES OF MODEL DOUBLE TAXATION CONVENTION AS WELL AS REPORT ON COMPANY TAXATION. ALSO AGREED TO REQUEST REVIEW BY COMMITTEE ON FINANCIAL MARKETS OF PROPOSALS FOR TAXATION OF INTERNATIONAL BOND ISSUES, SCHEDULED MEETING OF LIMITED OFFICIAL USE

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GROUP OF EXPERTS IN MARCH TO CONSIDER REPORT ON TAX DEPRECIATION

PRACTICES, AGREED TO RECOMMEND DERESTRICTION AND PBLICATION OF REPORT ON NEGATIVE INCOME TAXES, AND HEARD REPORTS FROM U.S., GERMAN, ITALIAN AND EC REPS ON STATUS OF CERTAIN NATIONAL TAX REFORMS AND TAX PROPOSALS IN EC. NEXT MEETING SHEDULED FOR JUNE 18-20, 1974. END SUMMARY.

2. FUTURE WORK SCHEDULE. CFA DECIDED TO MEET JUNE 18-20, 1974 AND DEC 17-19, 1974. SECRETARIAT WILL WRITE MEMBERS ASKING THEM TO SUBMT VIEWS ON PROPOSALS FOR CFA WORK PROGRAM FOR NEXT TWO YEARS. THESE WILL BE REVIEWED AT JUNE MEETING.

3. DOUBLE TAXATION AND RELATED ACTIVITIES. CFA WILL RECOMMEND TO COUNCIL THAT TEN ADDITIONAL REVSED ARTICLES OF MODEL DOUBLE-TAXATION CONVENTION (REF B) BE DERESTRICTED BUT NOT PUBLISHED. SECRETARIAT NOTED WORK WAS GOING FORWARD ON REVISION OF TEN ADDITIONAL ARTICLES AND THAT NEW DEADLINE FOR COMPLETIN OF REVISION WORK ON ENTIRE MODEL CONVENTION SHOULD PROBABLY BE SHIFTED TO END 1975. QUESTION OF STATUS OF REVISED ARTICLES WAS RAISED BY SEVERAL DELS WITH CONCENSUS BEING THAT REVISED AND DERESTRICTED ARTICLES WOLD IMPLY NO OBLIGATIONS BY GOVERNMENTS PENDING COMPLETION OF THE ENTIRE REVISED CONVENTION AND ACTION BY COUNCIL THEREON. GERMAN DEL POINTED TO NEED FOR AN ANALYSIS OF INTER-RELATIONSHIPS BETWEEN NEWY REVISED SECTIONS (AS WELL AS THOSE SECTIONS FOR WHICH ARTICLES THEMSELVES HAVE NOT BEEN CHANGED, BUT FOR WHICH EXTENSIVE INTERPRETATIONS HAVE NOW BEEN ADDED IN REVISED FORMAT) AND NATIONAL TAX TREATIS OR CONVENTIONS MODELED ON 1963 CONVENTION. SECRETARIAT NOTED THAT OECD CONSULTANT WAS PRESENTLY PREPARING A REPORT WHICH WILL ANALYZE ALL TAX TREATIES AND CONVENTIONS SINCE 1963 WHICH HAVE BEEN BASED ON MODEL CONVENTION.

4. CLASSIFICATION OF TAX REVENUES. CHAIRMAN WP-2 GAVE ORAL PROGRESS REPORT POINTING TO DIFFICULTIES IN MAKING COMPARISONS AMONG COUNTRIES DUE TO EXISTENCE OF FLEXIBLE XCHANGE RATES. TO OVERCOME THESE DIFFICULTIES, WP-2 IS ATTEMPTING TO COMPILE STATISTICS ON BASIS OF TYPICAL TAXPAYER IN EACH COUNTRY, AND TO DERIVE CERTAIN INTERNAL RATIOS FOR EACH COUNTRY CHAIRMAN BELIEVED WP COULD FINISH ITS ANALYSIS AND PRESENT RESULTS AT JUNE CFA MEETING. U.K. REP DOUBTED POLICY VALUE OF WORK THIS AREA, NOTING EXISTENCE OF LARGE INSTITUTIONAL AND STRUCTRAL DIFFERENES AMONG COUNTRIES (E.G., LARGE DIFFERENCES IN METHODS OF PUBLIC SECTOR FINANCING IN LIMITED OFFICIAL USE

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DIFFERENT COUNTRIES) MAKES SIMPLE COMPARISONS AMONG COUNTRIES MISLEADING. JAPANESE DEL EXPRESSD HOPE THAT WP-2 WORK COULD BE EXTENDED TO INCLUDE INTERNATIONAL COMPARISON OF EFFECTIVE TAX BURDENS OF CORPORATIONS. WP CHAIRMAN FELT HIS MANDATE DID NOT EXTEND THIS FAR, AND MATTER WAS NOT PURSRED.

5. TAXATION OF INTERNATIONAL BOND ISSUES. WHILE MOST DELS SUPPORTED IDEA OF NEED TO MOVE FORWARD IN EFFORT TO REDUCE TAX EVASION,

AND MANY AGREED ON FISCAL ASPECTS OF THE PROPOSAL IN NNEX II OF REF C, MOST ALSO POINTED TO POSSIBLY SERIOUS POLITICAL AND PRACTICAL PROBLEMS IN IMPLEMENTATION OF GENERALIZED WITHHOLDING SCHEME FOR INTERNATIONAL FINANCIAL MARKETS. U.S. REP (HICKMAN) FAVORED OPTION IN ANNEX II BUT COULD NOT ACCEPT RETROACTIVE APPLICATION. HE ALSO NOTED THAT ANNEX I GOES BEYOND U.S. LEGAL CONCEPTS (E.G. TAX OBLIGATION ON AGENT OF LENDER AND ALSO POINTED TO CERTAIN PRACTICAL AND POLITICAL PROBLEMS, AGREEING THAT QUESTION NEEDED STUDY FROM VIEWPOINT OF EFFECT ON CAPITAL MARKETS. OTHERS NOTED THAT IMPLEMENTATION OF PROPOSAL COULD NOT SUCCEED UNLESS ALL OECD COUNTRIES AGREED TO PARTICIPATE. (NOTE: COUNTRIES AGAINST PROPOSALS INCLUDED JAPAN, AUSTRIA, NORWAY, U.K., FINLAND, ICELAND, SWEDEN, DENMARK. THOSE IN INTERMEDIATE POSITION INCLUDED U.S., SWITZERLAND AND NETHERLANDS). SOME DELEGATES SUGGESTED THAT IMPLEMENTATION OF SCHEME IN OECD WOULD TEND TO SHIFT MANY INTERNATIONAL FINANCIAL MARKET ACTIVITIES TO NON-OECD AREAS. IN VIEW OF DIVIDED OPINION, CFA FELT BEST COURSE WAS TO BRING RESULTS OF WORK TO ATTENTION OF COUNCIL WITH SUGGESTION THAT SOME GROUP WITH SPECIAL COMPETENCE IN FINANCIAL FIELD, (SUCH AS COMMITTEE ON FINANCIAL MARKETS) BE INVITED TO EXAMINE REPORT AND GIVE ITS OPINION. (FYI: IT IS CLEAR THAT CFA DOES NOT INTEND TO CONTINUE ITS WORK ON THIS MATTER FOR TIME BEING. FURTHER MOVEMENT TOWARD GENERALIZED SCHEME OF WITHHOLDING TAX ON INTERNATIONAL ISSUES IN OECD CONTEXT CLEARLY NOT POSSIBLE UNLESS MEASURE STRONGLY ENDORSED BY COMMITTEE ON FINANCIAL MARKETS, AN OUTCOME WHICH SEEMS DOUBTFUL AT PRESENT).

6. TAXATION OF MULTINATIONAL ENTERPRISES. WP-6 CHAIRMAN GAVE LENGTHY ORAL REPORT, STRESSING IDEA THAT WP-6 WAS LOOKING AT QUESTION OF MNC TAXATION FROM OBJECTIVE STANDPOINT, THAT IT WOULD ATTEMPT TO REMOVE SOME OF THE MYTHS WHICH ALREADY EXIST IN THIS AREA (I.E., IT WAS NOT CONDUCTING A WITCH HUNT), AND THAT IT WAS LIMITED OFFICIAL USE

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COOPERATING IN THIS EFFORT WITH BIAC. DISCUSSION CENTERED AROUND TWO KEY ASPECTS: (1) FUTURE WORK OF WP-6 AND NATURE OF ITS TASK JUDGED IN LIGHT OF POSSIBLE ACTION BY COUNCIL AS REQUESTED IN REF I (WHICH ASKS OECD COMMITTEES TO SUBMIT POSSIBLE GUIDELINES BY END JULY 1974) AND, (2) DISCUSSION OF SAMPLE STANDARDS AS DEVELOPED IN SECRETARIAT PAPER REF H. DETAILS ON SECOND ASPECT WILL BE PROVIDED SEPARATELY. CFA CONCLUDED THAT WP-6 WORK WOULD NEED TO FOLLOW ONE OF TWO LINES FIRST, IF COUNCIL DOES NOT APPROVE JULY REQUEST FOR GUIDELINES IN REF I (AND CERTAIN MEMBERS, INCLUDING REP FROM AUSTRALIA, SUGGESTED THAT JULY DATE FOR GUIDELINES MIGHT BE TOO EARLY AND INDEED MIGHT NOT BE ACCEPTED BY COUNCIL) WP WOULD CONTINUE WITH ITS LONGER-TERM STUDY OF FACTUAL MATERIAL ON WHETHER OR NOT THERE ARE SPECIAL PROBLEMS FOR TAX AUTHORITIES IN OECD COUNTRIES WITH REGARD TO MULTINATIONAL CORPORATIONS.

TO EXTENT THERE ARE SUCH PROBLEMS, WP WOULD THEN DEVELOP BROAD RECOMMENDATIONS TO CFA FOR POSSIBLE SOLUTION. IF COUNCIL REQUESTS THAT GUIDELINES THEMSELVES BE FORWARDED BY JULY 1974, WP WOULD ATTEMPT TO FCUS ITS WORK MORE DIRECTLY ON GENERAL QUESTION OF WHETHER OR NOT DEVELOPMENT OF GUIDELINES AT THIS STAGE WAS FEASIBLE AND PRACTICAL IN ABSENCE OF COMPLETION OF LONGER-TERM STUDY ON FACTS OF MNC TAXATION. IT IGH T ALSO MOVE ALONG LINES SUGGESTED BY BELGIAN AN EC REPS THAT AN ALTERNATIVE TO GUIDELINES COULD BE AN IMPROVED EXCHANGE OF INFORMATION SYSTEM WHICH WOULD PERMIT INCREASED INTER-GOVERNMENT COOPERATIO IN POLICING OF TAX MATTERS RE MNC'S. LARGE NUMBER OF MEMBERS SEEMED TO FEEL THAT LATTER IDEA WAS MORE PROMISING APPROACH IN CASE OF MNC TAXATION THAN DEVELOPMENT OF GENERAL GUID-LINES.

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U.S. REP (HICKMAN) NOTED THAT AMNY COUNTRIES (E.G., U.S.) ALREADY IMPOSE STANDARDS OF KIND SUGGESTED AND THAT IT WAS NECESSARY FIRST TO FIND OUT WHAT RULES COUNTRIES ALREADY IMPOSE ON MNC'S REGARDING TAXATION, AND DEGREE TO WHICH THESE RULES

ARE CONSISTENT. HE ALSO SUGGESTED NEED TO RECOGNIZE THAT WHILE SOME HOST COUNTRIES DISCRIMINATE AGAINST MNC'S, OTHER HOST COUNTRIES ACTIVELY ENCOURAGE MNC'S TO TAKE ADVANTAGE OF INCENTIVES WHICH COULD BE CONSIDERED INCONSISTENT WITH BEST INTERESTS OF THIRD COUNTRIES. HE FELT WP SHOULD TAKE CARE TO PREVENT DEVELOPMENT OF GUIDELINES AND REQUESTS FOR INFORMATION WHICH MIGHT UNDERMINE MARKET COMPETITION, AS WELL AS TO AVOID DEVELOPING A SITUATION IN WHICH COMPANIES WOULD BE REQUIRED TO PROVIDE INFORMATION WHICH WOULD BE USED AGAINST THEM. HE SUGGESTED THAT IMMEDIATE GOAL OF WP SHOULD BE TO ANALYZE QUICKLY FACTS CONTAINED IN QUESTIONNAIRES ALREADY RECEIVED. UK REP PROPOSED REVISED WORDING FOR STANDARD 2 REF H AS FOLLOWS:

QUOTE MULTINATIONAL ENTERPRISES SHOULD REFRAIN FROM THE USE OF LIMITED OFFICIAL USE

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ARTIFICIAL ARRANGEMENTS WHOSE SOLE OR MAIN PURPOSE IS TO AVOID, REDUCE, OR DEFER THE TAXATION OF PROFITS UNQUOTE.

7. INTERNATIONAL COMPARISON OF TAX DEPRECIATION PRACTICES. IN RESPONSE TO SUGGESTION BY U.S. REP (GORDON) THAT AUTHORS OF REF D WOULD WELCOME ANY COMMENTS TO CORRECT FACTUAL ERRORS OR SUGGESTIONS FOR IMPROVEMENT ANALYSIS, SEVERAL REPS MADE SPECIFIC SUGGESTIONS FOR TECHNICAL IMPROVEMENTS. SWISS REP POINTED TO CERTAIN ERRORS IN COMPILATION OF SWISS CORPORATE TAX RATES. IMF REP SUGGESTED COMPARISONS OF DIFFERENT DEPRECIATION METHODS BE MADE ON BASIS OF STANDARDIZED TAX RATE TO REMOVE INFLUENCE OF DIFFERENCES IN LATTER OF RESULTS. SWISS DEL DOUBTED PRACTICAL USEFULNESS TO CFA OF FURTHER WORK IN AREA. CFA DECIDED TO APPOINT SMALL GROUP OF TECHNICAL EXPERTS (U.K., FRANCE AND SECRETARIAT) TO MEET MARCH 12-13 TO PUT DOCUMENT IN FINAL FORM. WRITTEN SUGGESTIONS FROM INTERESTED MEMBERS OF CFA SHOULD BE SUBMITTED BY MID-FEBRUARY, 1974.

8. SCHEMES FOR RATIONALIZING TAX AND WELFARE SYSTEM. AFTER LENGTHY DEBATE ON BOTH TECHNICAL AND CONCEPTUAL ISSUES, CFA AGREED TO SEND REPORT ON NEGATIVE INCOME TAX SCHEMES (REF E) TO COUNCIL WITH RECOMMENDATION THAT IT BE DERESTRICTED AND PUBLISHED. VERSION TO BE FORWARDED TO COUNCIL STILL SUBJECT TO COMMENTS WHICH DELEGATES ARE REQUESTED TO SUBMIT TO SECRETARIAT PRIOR FEB 1, 1974. REF F WILL BE ANNEXED TO REPORT AT TIME OF PUBLICATION. BECAUSE MANY DELS UNABLE TO ENDORSE NEGATIVE INCOME TAX EITHER IN CONCEPT OR IN PRACTICE, THERE WAS DEBATE ON DEGREE OF ACCEPTANCE CFA SHOULD IMPLY IN FORWARDING REPORT TO COUNCIL. FINAL DECISION WAS TO CHANGE FOOTNOTE 1, PAGE 1 OF REF E TO READ AS FOLLOWS: "THIS REPORT WAS PREPARED ON THE RESPONSIBILITY OF THE SECRETARIAT OF THE FINANCIAL AND FISCAL AFFAIRS DIRECTORATE. THE CFA OF THE OECD NOTED THE REPORT AND, IN VIEW OF ITS INTEREST FOR A WIDER PUBLIC, RECOMMENDED THAT IT BE PUBLISHED. THE VIEWS EXPRESSED THEREIN DO NOT

COMMIT THE GOVERNMENTS OF MEMBER COUNTRIES."

9. COMPANY TAXATION. REF G WILL BE DERESTRICTED BY SEC GEN AND MADE AVAILABLE FOR SALE TO PUBLIC. NO SPECIAL REPORT WILL BE MADE TO COUNCIL, AND NO CFA OR OECD ENDORSEMENT OF STUDY WILL BE IMPLIED.

10. NATIONAL TAX REFORMS. (SEE REF J) REPS OF GERMANY, ITALY AND LIMITED OFFICIAL USE

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U.S. DESCRIBED RECENT OR PROPOSED CHANGES IN THEIR NATIONAL TAX LAWS. IN FIRST TWO CASES CHANGES WILL AFFECT EXISTING TAX TREATIES AND CONVENTIONS. U.S. REP (HICKMAN) DESCRIBED PROPOSED U.S. EMERGENCY WINDFALL PROFITS TAX (AS OUTLINED IN U.S. TREASURY NEWS RELEASE NR . S-341 OF DEC 19, 1973, COPIES OF WHICH WILL BE MAILED TO CFA MEMBERS BY OECD SECRETARIAT). HE STRESSED IDEA THAT WHILE SUPPLY CONSTRAINTS WOULD PREVENT ANY SIGNIFICANT INCREASE IN DOMESTIC OIL PRODUCTION IN SHORT RUN, TAX WAS DESIGNED TO ABSORB WINDFALL PROFIT (OR ECONOMIC RENT) OF OIL PRODUCERS IN WAY WHICH WOULD HELP LEAD TO CONSIDERABLY GREATER DOMESTIC OIL PRODUCTION OVER NEXT THREE YEARS. IN RESPONSE TO QUESTIONS, HE NOTED TAX APPLIES TO ALL DOMESTIC PRODUCTION, INCLUDING EXPORTS, THAT EXPECTED REVENUES IN FIRST YEAR ARE \$3 TO 5 BILLION, AND THAT NATURAL GAS AND COAL ARE NOT INCLUDED IN THE TAX PROPOSAL. EC REP DESCRIBED COMMISSION'S WORK ON DEVELOPMENT OF UNIFORM BASE FOR TVA, TOGETHER WITH PROPOSALS REGARDING HARMONIZATION OF EXCISE TAXES. ALSO DESCRIBED WORK IN AREA OF DIRECT TAXES, NOTABLY TAXATION OF DIVIDENDS AND INTEREST AND CORPORATE TAXATION WHICH HAVE IMPLICATIONS ON CAPITAL TRANSACTIONS WITHIN EC.

11. ITEM XI. THIS ITEM NOT DISCUSSED.

12. INVESTMENT COMPANIES. WG-33 CHAIRMAN NOTED THAT REPORT OF GROUP SHOULD BE READY FOR CFA AT JUNE MEETING.
BROWN

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